



Citizens' Water Advisory Committee
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Citizens' Water Advisory Committee

MINUTES – February 3, 2010

The regular meeting of the Citizens' Water Advisory Committee was called to order by Martha Gilliland, Vice Chair, on Wednesday, February 3, 2010, at 7:00 a.m., in the Tucson Water Building, 310 W. Alameda, 3rd Floor Director's Conference Room, Tucson, Arizona.

1. Call to Order

Members Present:

Thomas Meixner
Christopher Brooks
Jim Horvath
Martha Gilliland, Vice Chair
Mark Taylor
Tina Lee
Amy McCoy
Bruce Billings
Vince Vasquez
Evan Canfield
Martin M. Fogel
W. Mark Day
Jeff Biggs, Tucson Water Director

Appointed by:

City Manager
City Manager
City Manager
City Manager
City Manager
Ward 1
Ward 2
Ward 3
Ward 4
Ward 6
Mayor
Mayor
Ex-Officio Member

Members Absent:

Sarah Evans, Chair
Jim Barry
Michael Gritzuk, Pima County Regional Water
Reclamation Department Director

City Manager
City Manager

Ex-Officio Member

Others Present:

Chris Avery, Tucson Water Interim Deputy Director
Sandy Elder, Tucson Water Interim Deputy Director
Belinda Oden, Tucson Water Business Services Administrator
Trucynda Hawkins, Tucson Water Rates & Revenue Manager
Fernando Molina, Tucson Water Public Information Officer
Nicole Ewing-Gavin, Assistant to the City Manager and Project Coordinator for the City/County
Water/Wastewater Study Oversight Committee
Claire Zucker, PAG Watershed Planning Manager
Holly Lachowicz, Ward 3 Administrative Assistant
John Thomas, Tucson Water Management Coordinator
Tiki Lawson, Recording Secretary, City Clerk's Office
Deborah Keenan, Recording Secretary, City Clerk's Office

2. Announcements

Vice Chair Gilliland announced Items 10 and 11 would be reversed in order.

3. Call to the Audience

No one spoke.

4. Approval of Minutes – December 2, 2009

Motion to approve the minutes of December 2, 2009, as presented, was passed by a voice vote of 12 to 0 (Committee Members Sarah Evans and Jim Barry absent).

5. Director's Report

a. Mayor and Council items

- December 7, 2009, Mayor and Council approved the effluent and reclaimed water agreements with Flowing Wells Irrigation District and the Spanish Trail Water Company.
- January 26, 2010, a Resolution was passed by Mayor and Council providing the City of Tucson would maintain control and management authority of the City's water utility, together with the City's water infrastructure, delivery system, water rights and resources, as provided in the Tucson City Charter.
- February 9, 2010, a public hearing on the City/County Wastewater Study Phase II Report had been scheduled to provide a venue for the public to comment in person to the City Council regarding the Report's recommendations.
- February 17, 2010, lease agreement for a 25 MW utility-scale solar project developed by Fotowatio Renewable Ventures in partnership with TEP. The City's involvement would be limited to the land lease.
- February 23, 2010 Study Session, discussion of the Utility's FY 2010 - FY 2015 Financial Plan and CWAC Report recommendations before regular meeting adoption of the Plan. At the regular meeting there will also be an amendment to the University of Arizona "Project WET" IGA to incorporate restaurant rinse-smart spray valve program. This amendment is intended to improve the rate at which rinse spray valves at dishwasher stations in restaurants and industrial kitchens are replaced with more water efficient models.

b. Other

Mr. Biggs said the first half of FY 2010 ending December 2010 brought the Utility in with expenditures below 1.6 million dollars and with capital improvement spending at two million dollars which was better than in past years.

6. Reconsideration of Proposed Miscellaneous Fees

Belinda Oden, Tucson Water Business Services Administrator gave the background for the Utility's reconsideration of the Proposed Miscellaneous Fees. A discussion ensued. Committee Member Billings asked why there was a two-year period involved. Ms. Oden said that, typically, there was an update once a year of the Miscellaneous Fees and then the next year the System Equity and CAP Water Resource Fees were updated so that the rate payers were not hit with increases in all fee areas. Ms. Oden added the calendar could be looked at again regarding the alternate changes in fees.

It was moved by Committee Member Vasquez and duly seconded, to reconsider the Proposed Miscellaneous Fees for additional analysis within the next two-year period, to be reviewed by CWAC in one year.

Vice Chair Gilliland asked if there was any discussion. Hearing none, she asked for a roll call vote.

Upon roll call, the results were:

Aye: Committee Members Gilliland, Fogel, Canfield, Horvath, Lee, Billings, Meixner, Vasquez, McCoy, Brooks, Taylor, and Day

Absent: Committee Members Evans and Barry

The motion to reconsider the Proposed Miscellaneous fees for additional analysis within the next two-year period, to be reviewed by CWAC in one year was passed by a roll call vote of 12 to 0.

7. Proposed FY 2010 - FY 2015 Conservation Financial Plan

Ms. Oden distributed a Preliminary FY 2010 - FY 2015 *Conservation Financial Plan* which was previously approved by the CWAC Conservation & Education Subcommittee. She said during the last CWAC meeting, a plan had been presented but it was indicated that further research was intended to ensure that the Utility was following the Mayor and Council guidelines and directions regarding implementation and funding levels for the Conservation Task Force recommendations. Ms. Oden stated as a result of that research, and the guidelines received, the *Conservation Financial Plan* was revised to increase funding to achieve the full funds for the Conservation Task Force's recommendations by 2013 as directed by the Mayor and Council.

Ms. Oden said that this was the final *Plan* recommended by the Conservation & Education Subcommittee and explained that the biggest increase was a one-cent increase for 2011 which was to allow for the full funding of the Conservation Task Force recommendations by 2013. Ms. Oden stated the *Financial Plan* showed a one-cent increase in FY 2011, a two-cent increase in FY 2012, followed by no increase in FY 2013, and an increase in FY 2014, followed by no increase in FY 2015. She explained the *Plan* met the Mayor and Council's direction of full implementation of the Conservation Task Force funding recommendation, as well as, maintain a balance at the end of each year.

Committee Member Canfield and Conservation Subcommittee Chair stated the *Plan* achieved the Mayor and Council directive, which was the main benefit. He said they were on target to exceed HET residential toilet rebates for the coming year.

Fernando Molina, Tucson Water, Public Information Officer, added there would likely be excess funding available which led to an additional recommendation for two staff positions, one at the professional level, and one at the clerical level. The other recommendation the Task Force had was to initiate some marketing.

Committee Member Canfield noted that other efficiency improvements such as leak repairs were not included in the current authorized use of funds, but would be looked into for the future.

It was moved by Committee Member Canfield, duly seconded to approve the recommended levels in the FY 2015 *Conservation Financial Plan* CCTF E(2).

Vice Chair Gilliland asked if there was any discussion. Hearing none, she asked for a roll call vote.

Upon roll call, the results were:

Aye: Committee Members Gilliland, Fogel, Canfield, Horvath, Lee, Billings, Meixner, Vasquez, McCoy, Brooks, Taylor, and Day

Absent: Committee Members Evans and Barry

The motion to approve the recommended levels in the FY 2015 *Conservation Financial Plan* CCTF-E(2) was passed by a roll call vote of 12 to 0.

8. Proposed FY 2010 – FY 2015 Tucson Water Financial Plan

Belinda Oden, Tucson Water Business Services Administrator, distributed a handout detailing the Proposed FY 2010 – FY 2015 *Tucson Water Financial Plan*. She began with a summary of what had transpired and where the Utility currently stood since the last CWAC meeting of December 2, 2009. She said since that time, the Utility had met with the Finance Sub-committee several times and had a recommendation to CWAC about the *Plan*. Ms. Oden said there would be an additional meeting on March 24, 2010, to present the revenue targets and the rate design. This would be the final task in this fiscal year for the full CWAC relative to the *Financial Plan*.

Ms. Oden said she would be tasking the Finance Subcommittee in mid-March, 2010 and would meet with them twice before the next full CWAC meeting. She added there would be a Notice of Intent for a revenue increase on April 20, 2010, followed by a public hearing on May 25, 2010. Ms. Oden spoke about some of the guidelines the Utility had in developing the *Financial Plan*. She added, as a utility and enterprise fund, it needed to maintain adequate cash reserves and keep a working capital level that would provide the cash reserves needed. Mayor and Council policy was to keep five-percent of water sales as cash reserves, in addition to the guideline for the Utility to achieve a ten-percent reserve level. Ms. Oden said, in addition, there were promises made to the Utility's bond holders based on a bond covenant which stated the Utility had to demonstrate it had enough money left over to pay all of its operating expenses and debt service coverage ratio of 1.75. She added the covenants required them to use that for all its senior lien debt, explaining there were two types of debt: senior lien and junior lien. The Utility was meeting its 1.75 coverage on all of its senior lien debt in all years of the *Plan*. She discussed several issues related to the Utility's debt and its terms of repayment, as well, as some issues in the current fiscal year that had impacted the *Plan*.

Ms. Oden summarized what had been covered in the last CWAC meeting on December 2, 2009, explaining the CIP was always financed by a combination of revenues and debt so the cost was spread to the ratepayers who benefited from the Utility incurring that debt for the capital projects built to serve those customers. She raised the subject of the five furlough days

approved by the Mayor and Council and the additional four days recently adopted. She said these savings were incorporated in the *Plan*.

Ms. Oden mentioned there were also vacancy savings included in the *Plan* for the current year and brought up the failure of the Home Rule in the November 2009 election and its impact on the Utility. She said for FY 2011, the Utility had been given guidance from the Finance Department that it was not impacted by the State expenditure limitation. The City's position would be evaluated along with the impact in future years to the Utility as well. Ms. Oden said a policy had changed regarding cash reserves as a percentage of working capital. This was to ensure an adequate level of cash reserves.

Ms. Oden discussed a few new items that had not been included in the last *Plan*. One item discussed at length was the "in lieu of" property tax, which had been added to the *Plan* and was currently estimated to be about 1.6 million dollars. She went on to explain what this tax was comprised of and clarified that currently municipal utilities were exempted from property tax by state statute. The City of Tucson, as the owner of the Utility, had the right to impose an "in lieu of", or in place of, tax to make up for the lost property tax revenue that would have been received if the Utility were a private business. Ms. Oden said the City of Phoenix also included an "in lieu of" property tax; they have a percentage on the Phoenix water utility. The "in lieu of" tax was scheduled to be presented to the Mayor and Council on February 23, 2010; currently it was only a recommendation from the City Manager to the Utility. Ms. Oden raised the point that this "in lieu of" property tax was on the Utility's 2010 *Financial Plan* adopted last year by the Mayor and Council.

Another item mentioned by Ms. Oden was the low-income assistance program which was adopted by the Mayor and Council, which required the Utility to pay its share of the low-income program. The implementation of this and the requirements associated with the program were being researched and more information would be forthcoming. A five hundred thousand dollar level had been included covering this item. Ms. Oden said an additional item not included in the December 2009 *Plan* was the furlough savings for FY 2011. She said, based on the City's financial position, the Utility included nine furlough days or a three and a half-percent reduction in its calculations.

Ms. Oden also mentioned the Arizona Department of Water Resources (ADWR) was being affected by the State's budget crisis. ADWR was looking to recover their costs and pass those on to users, so anticipated payments the Utility was required to make were also included in the *Plan*. Ms. Oden said, after these additional changes, the Utility's ratepayers would be affected by rate increases as was discussed at the December 2, 2009, meeting as follows:

- 9.7 percent revenue increase in 2011
- 7.5 percent revenue increase in 2012 and 2013
- 5.0 percent revenue increase in 2014 and 2015

Committee Member Horvath and Chair of the Finance Subcommittee said the vote of the Subcommittee was five to two in favor of recommending this budget. He said there was a substitute motion supported by him and Committee Member Taylor to recommend the budget as is excluding the "in lieu of" tax which was the main topic discussed at the Subcommittee meeting. Committee Member Horvath raised the question of whether it was the position of CWAC members to recommend a tax for the General Fund of the City. A discussion ensued regarding the "in lieu of" tax.

Committee Member Horvath also mentioned the Subcommittee discussed the increased embedded tax, which had existed since 1977. He said it had been two percent but recently

increased in 2009 to four percent or approximately 3.5 million dollars a year. He added the “in lieu of” tax was another additional 1.6 million dollars and stressed there was a lot of expense beginning to add up and as a result, he was very hesitant to recommend this additional tax. Committee Member Horvath said CWAC was strictly a water advisory board and he could not understand how it could delve into City budget and management issues. He said he did not think the CWAC Board should make a recommendation for another tax. A discussion, as well as a question and answer period followed regarding this and other City and Utility tax related and budget issues.

Committee Member Billings moved, duly seconded, to approve the FY 2010 - FY 2015 *Financial Plan*.

Committee Member Horvath made a substitute motion, duly seconded, to approve the FY 2010 - FY 2015 *Financial Plan* as is with the exception of line item #14a, ‘in lieu of’ tax, and with a corresponding rate adjustment lower than requested.

Further discussion ensued regarding the ‘in lieu of’ tax. Vice Chair Gilliland asked for a roll call vote.

Upon roll call, the results were:

Aye: Committee Members Horvath, Meixner, Taylor

Nay: Committee Members Gilliland, Fogel, Canfield, Lee, Billings, Vasquez, McCoy, Brooks, Day

Absent: Committee Members Evans and Barry

The substitute motion to approve the FY 2010-FY 2015 *Financial Plan* as is with the exception of line item #14a, “in lieu” of tax, and with a corresponding rate adjustment lower than requested failed by a roll call vote of 3 to 9.

Aye: Committee Members Gilliland, Fogel, Canfield, Lee, Billings, Vasquez, McCoy, Brooks, Taylor, Day

Nay: Committee Members Horvath, Meixner,

Absent: Committee Members Evans and Barry

The motion to approve the FY 2010 - FY2015 Financial Plan was passed by a roll call vote of 10 to 2.

At this time, Vice Chair Gilliland introduced Mark Day, the newest CWAC member appointed by the Mayor.

9. Update: City-County Water / Wastewater Study Committee

Nicole Ewing-Gavin, Assistant to the City Manager and Project Coordinator for the City/County Water/Wastewater Study Oversight gave a brief summary of events from the culmination of the Committee’s findings in December of 2009, to discussion of the Committee’s Report at the Mayor and Council Study Session and Public Hearing at the Regular Meeting of February 9, 2010, where staff was scheduled to clarify some technical points previously raised.

Depending on the outcome of the public hearing, she said an endorsement from the Mayor and Council and a resolution to move forward with the Committee's recommendations was expected at the February 17, 2010 meeting. The resolution would direct Pima Association of Governments (PAG) to take on a technical assistance and facilitation role and work closely with other regional efforts. She stated once the Mayor and Council endorsed the report, staff would return with a plan for refining and formalizing the obligated water service areas. The report would be brought before CWAC as well. Ms. Ewing-Gavin stressed that the Study recommended economic and environmental considerations be looked at in the obligated water service area. A question and answer period followed.

10. Update: ADD Water Project (taken out of order)

Chris Avery, Tucson Water Interim Deputy Director, summarized events that had transpired since the last CWAC meeting on December 2, 2009, with regard to the current status of the Acquire, Develop, and Deliver (ADD) project. He said the ADD was initiated by the Central Arizona Water Conservation District (CAWCD) and spoke about what issues had been resolved, what the ADD process was, and where it would be going in the future. He said it currently had obligations of 1.5 million acre feet (AF) of contract and the ability to deliver about 1.8 million AF of water. The ADD process fit in the space between the available contracts on the Colorado River and the space on the Central Arizona Project (CAP) canal. One of the ADD issues was how to find a water supply in addition to CAP's allocation to be delivered to the CAP service area through the CAP canal or through some reasonably efficient additions to that canal. Mr. Avery discussed questions paramount to the project currently under discussion since December 2009:

- The best method to incorporate other water providers outside the three-county area into the process.
- Delivery of ADD water outside the three counties or CAP service areas through the CAP canal and ensure those water providers outside the three-County areas would pay a fee to CAP.
- Incorporation of the long-term interests of the Central Arizona Groundwater Replenishment District (CAGRD) into the ADD water process.

Mr. Avery said there was a small stakeholder group that met every week from the end of September to Thanksgiving, 2009 to discuss these topics. They met to resolve outstanding issues such as paying for both CAP and ADD water, delivering the water through the canal and governing the ADD water process. He added progress had been made in these matters.

Mr. Avery said this project was started as a process for delivering water only within the three counties of Pima, Maricopa and Pinal. As discussions continued, it became apparent there were two issues involved regarding delivering water outside the service area: what rules were in place for deliveries of ADD water through the CAP canal to parties located outside the service areas, and the northern Arizona stakeholders not served by the CAP.

Mr. Avery stated a set of rules had been formulated for how ADD water could be obtained for use outside the CAP service areas. He said this meant the CAP project canal had been paid for not only by the fees paid by Tucson Water as part of its CAP project allocation, but also by anyone who owned property in Pima County. Mr. Avery stated there was a property tax assessment that went toward paying the cost of the CAP.

Mr. Avery discussed how to deal with the northern Arizona and possible Sierra Vista issue of delivering water to two parties who did not have current CAP contracts and who were not next to the CAP service area. He said at this point, the ADD process involved trying to reserve about a fifty thousand acre feet (AF) of ADD water to be used for the non CAP canal users.

Mr. Avery noted one of the outcomes of the ADD process would have to be some legislation that slightly altered the way the CAP worked and the authority it currently had under State law.

In conclusion, Mr. Avery stated that currently, even though Tucson was located a thousand feet higher than Phoenix, the water rates were the same. In the ADD process, there was some concern by the Phoenix parties that if the cost of electricity increased, they were not interested in subsidizing Tucson. He said, in addition, it was recognized that if power costs in the future stayed about where they were today, water subsidization on the order of fifty to seventy-five dollars an AF would be justified because there were benefits to having an increased number of participants in the project.

Mr. Avery said a compromise had been worked out and it was agreed that ADD water would be paid for on a block or uniform rate unless there were substantial spikes in energy costs. He added one of the concepts of the ADD process was that there would be substantial up front costs that would be paid by participants. The ADD water would be a market based transaction so if one wanted to pay for ADD water and could afford it; the water could be put to beneficial use. As a service area, one would be able to participate with an up or down front payment but it was projected that this was five to ten years away before these first payments would be made. Mr. Avery reiterated the idea that CAGR D would split but still be required to find sources of supply to meet its current obligations that included twelve thousand five hundred AF to the City of Tucson. A question and answer period followed

Mr. Avery concluded by stating the ADD was not on the *Financial Plan* yet but he would continue to update the Committee as there was still a lot of work to be done

11. Briefing: Tucson Water Operating and Maintenance Division

This item was not discussed.

12. Subcommittee Reports

Committee Member Canfield and Chair of the Conservation & Education Subcommittee said Fernando Molina, Tucson Water Public Information Officer, had prepared a draft report to the Mayor and Council on the status of the conservation fee funds which was available to anyone wishing to read it.

13. Future Agenda Items

The schedule for the next meeting on March 24, 2010, would include a discussion of revenue targets and vote on the proposed rate schedule.

14. Call to Audience

No one spoke.

15. Adjournment: 8:55 a.m.